

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.

24D1755
A376

Agricultural Outlook Forum 2000



Speech Booklet 6

Friday, February 25

For release 7:00 a.m., February 25

8:00 THE OUTLOOK FOR GRAINS AND OILSEEDS

Grains and Oilseeds Outlook for 2000

Bill Lapp, Vice President of Economic Research, ConAgra, Inc.

8:00 THE TRADE POTENTIAL OF SUB-SAHARAN AFRICA

Leveraging U.S. Government Investment and Development Funds for Market Development

Mark Condon, Vice President, American Seed Trade Association

10:00 THE OUTLOOK FOR SUGAR AND SWEETENERS

Sweeteners in the World Trade Organization Negotiations

Dale McNeil, Partner, Ablondi, Foster, Sobin and Davidow, P.C.

10:00 PRODUCE MARKETING INFORMATION IN THE INTERNET AGE

Enhanced Market Access through Electronic Commerce

Henry R. Lambert, President, North America, efdex Inc.

12:10 THE SUGAR AND SWEETENERS LUNCHEON

Sweeteners Trade Issues: A View from Capitol Hill

Tom Mahr, Legislative Director to Senator Kent Conrad (D-ND)

12:10 THE FRUIT AND VEGETABLES LUNCHEON

Organics...Yesterday, Today, and Tomorrow

Larry Jacobs, CEO, Jacobs Farm/Del Cabo, Inc.

2:00 THE POTENTIAL IMPACT OF ELECTRONIC COMMERCE ON AGRICULTURE AND RURAL AMERICA

The Electronic Exchange: Marketplace of the Future

Frank Tomasino, Founder and Chief Executive Officer, Foodtrader.com

USDA
LIBRARY
2001 MAR 20 A 11:24
CURRENT AGRICULTURE RECORDS
ADDED TO THE ARCHIVE

GRAIN & OILSEED OUTLOOK FOR 2000

Bill Lapp

Vice-President of Economic Research

ConAgra, Inc

February 25, 2000

February 25, 2000

Agricultural Outlook Forum 2000

2000/01 Grains & Oilseed Prospects *Over-Riding* Themes

- World Economies, Demand Recovering
 - Exports Outlook May Surprise Market
- Above Trend Yields World-Wide Over-Shadow Growth in Demand
 - *Are We Immune From Weather Problems?*
- 2000/01 U.S. Ending Stocks Outlook Mixed:
 - Wheat Declining (900 MM vs. 1.0 B)
 - Corn Steady (1.7 B)
 - Soybeans Rising (500 MM vs. 350 MM)

February 25, 2000

Agricultural Outlook Forum 2000

2000/01 Grains & Oilseed Prospects *Over-Riding Themes*

- Prices Forecast To Remain Historically Low
 - But Only Soybeans Declining Again
- U.S. Soybean Yields VS. U.S. Wheat Yields
- Weather Remains Key Driver For U.S./World Prospects
- Agricultural Policy Also A Critical Driver
 - EU Agenda 2000, Chinese Internal Policy, U.S. Farm Support, China Entry Into WTO

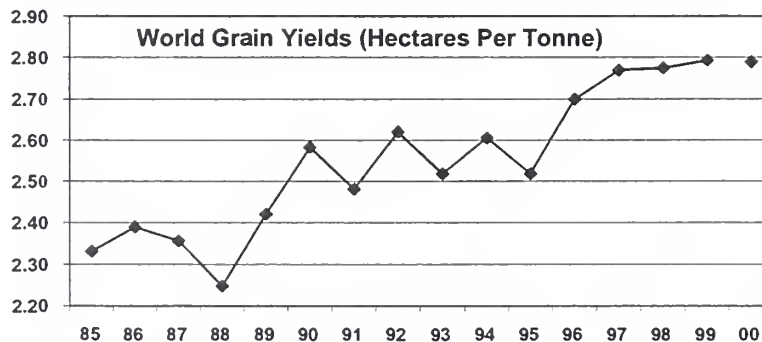
- *China Will Impact Markets*

February 25, 2000

Agricultural Outlook Forum 2000

4 Years of Favorable Weather Leads To Favorable Yields

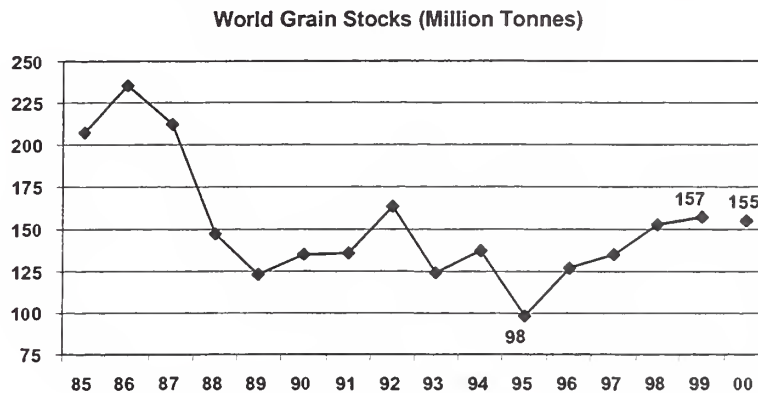
Typical Decline Equal To 55 Million Tonnes



February 25, 2000

Agricultural Outlook Forum 2000

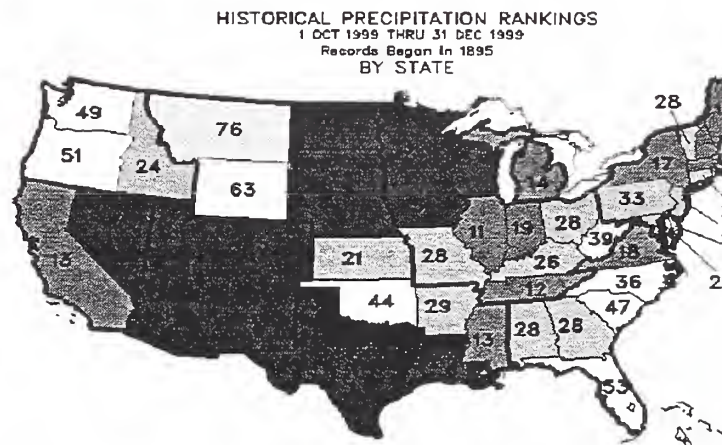
World Grain Stocks *Recovered Since 95 But Not Large*



February 25, 2000

Agricultural Outlook Forum 2000

Driest Fall In 105 Years In Many States

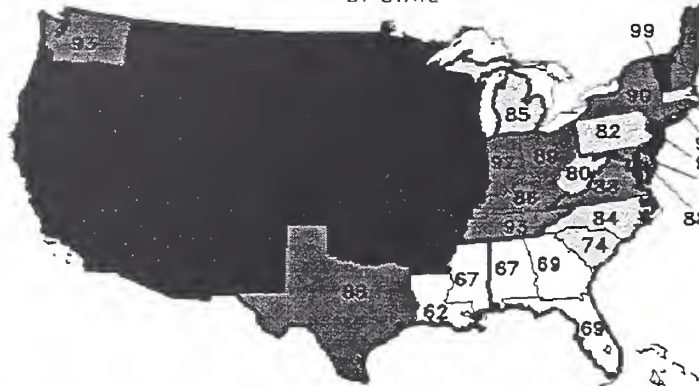


February 25, 2000

Agricultural Outlook Forum 2000

Warmest Fall In 105 Years In Most States

HISTORICAL TEMPERATURE RANKINGS
1 OCT 1999 THRU 31 DEC 1999
Records Began In 1895
BY STATE



February 25, 2000

Agricultural Outlook Forum 2000

December 1 Stocks (Million Bushels)

	<u>12/1/99</u>	<u>YR AGO</u>	
• CORN	9437	9759	-3%
• WHEAT	1879	1896	-1%
• SOYBEANS	2182	2186	-0%
• <i>Still Historically Large</i>			
• <i>Limited Government Ownership/Control</i>			
• <i>First Year-To-Year Decline Since 1996</i>			

February 25, 2000

Agricultural Outlook Forum 2000

Comments On Supply/Demand CORN 2000/01

- Supply/Demand Appears Stable
 - Modest Acreage Decline
 - Feed Use Growth Slows: Beef/Pork Reductions
 - Exports Subdued -- Under 2.0 B Again
 - Stocks Remain At 1.9 B Bushels
- Prices “Subdued” Until Catalyst Appears
 - Weather, Chinese Policy Change
 - 10% Yield Decline = 50% of Ending Stocks

February 25, 2000

Agricultural Outlook Forum 2000

Key Risks/Unknowns For CORN

- Weather - U.S. & World-Wide
 - Midwest Dryness Needs To Be Rectified
 - 850 Trillion Kernels Pollinate in 14 Days
- Demand Better Than Expected, Improving
- Chinese Export Policy
 - Key Limiting Factor For U.S. Exports
 - Chinese Internal Policy Subject To Change
 - ***China's Entry Into WTO Could Change Outlook For Corn Dramatically***

February 25, 2000

Agricultural Outlook Forum 2000

Comments On Supply/Demand WHEAT 2000/01

- Excess Exportable Supply Has Kept Prices Under Pressure
 - Market Impact of Donations Unclear
- EU Increased Crop -- Agenda 2000 Impact
- U.S. Southern Plains Enter 2000 Very Dry
- Iran Market Potential Will Remain Large
- ***China Internal Policy, WTO Impacts Could Be Lead Market Mover***

February 25, 2000

Agricultural Outlook Forum 2000

Key Risks/Unknowns For WHEAT

- Weather - U.S. & World-Wide
 - Extremely Dry Fall Throughout Plains
 - Iran Still Facing Water Shortage
- U.S. Donations of Wheat
 - Quantity, Timing, Destinations - All Unclear
 - Impact Upon Markets - Also Unclear
- ***Chinese Import Demand Could Surprise***

February 25, 2000

Agricultural Outlook Forum 2000

Comments On Supply/Demand SOYBEANS 2000/01

- Acreage Up Every Year Since 1990 (+30%)
- 2000 Crop Projected +12%
- Stocks Rise Sharply By End of 2000/01
 - In Spite Of 6% Rise In Demand
- Canada, EU Rapeseed Acreage Cut Back
- South America Soybean Acreage Decline?
- Weak Price Outlook - Sub \$5 Again

February 25, 2000

Agricultural Outlook Forum 2000

Key Risks/Unknowns For SOYBEANS

- Weather - U.S. & World-Wide
 - Midwest Dryness Needs To Be Rectified
 - Less Risky Than Corn
 - (1999 U.S. Yields Were 10% Below Trend)
- Demand On The Rise
 - 99/00 Forecasts On The Rise
 - World Economic Growth Promotes Soy Demand
- *At What Price Do Producers Reduce SB Acres?*

February 25, 2000

Agricultural Outlook Forum 2000

Summary Of Grain Situation

- Weather Remains A Risk
- World Stocks, Demand Provide Potential For Market Volatility
- Soybeans Will Need To Buy Demand If Trend Yields Are Realized
- *China Internal Policy, WTO Status Are Key Unknowns*

February 25, 2000

Agricultural Outlook Forum 2000

China Impact On Markets

- Economic Model:
 - 1.2 BILLION X Anything = *A LOT*
- Recent Impact On U.S. Ag Dramatic
 - Competing Exporter of 3-8 MM Tonnes of Corn
 - Sharp Decline In Wheat Imports
 - Rise In Oilseed/Product Demand
- In The Future China Will Continue To Impact U.S. Ag Markets

February 25, 2000

Agricultural Outlook Forum 2000

Chinese Policy Shifts

- Internal Policies Changes In Mid-90s
 - Reduced Dependence On Imports
 - But High Costs To Chinese Government Rise
- Asian Crisis Impacts Chinese Economy
- China Has Strong Desire To Participate In World Economy
 - *Their Goal: Entry Into WTO*

February 25, 2000

Agricultural Outlook Forum 2000

China & WTO

- China Has Formally Applied For Entry Into World Trade Organization (WTO)
- China Required To Complete Bi-Lateral Agreements With All WTO Members Countries *Prior* To Entry
- China and U.S. Have Reached A Bi-Lateral Agreement
 - *Not In Effect Until Congress Grants China Permanent Normal Trade Relations*

February 25, 2000

Agricultural Outlook Forum 2000

China-U.S. Proposed Bi-Lateral WTO Agreement

- If Enacted, It Would Be A Watershed Event For U.S. Agriculture
- Results In \$2 B Additional U.S. Ag Exports
- China Would Eliminate Export Subsidies
- Average Tariffs On Imports Fall From 31% to 14%
- TCK Wheat Issue Resolved

February 25, 2000

Agricultural Outlook Forum 2000

2 Numbers To Remember

7.3 Million

4.5 Million

February 25, 2000

Agricultural Outlook Forum 2000

Leveraging U.S. Government Investment and Development Funds for Market Development



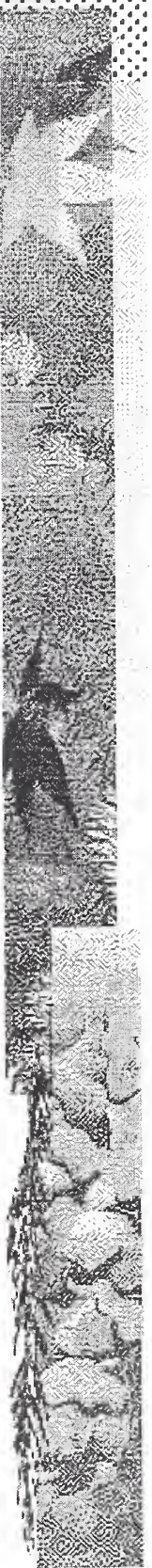
Mark S. Condon

**Vice President – International Marketing
American Seed Trade Association**



Elements

- Understand Africa, its market environment and the organizations that serve this region
- Know the fundamentals of economic and agricultural development
- Develop mutually beneficial strategies that simultaneously promote market access and economic development
- Formulate a national and regional vision
- Develop strategic alliances and partnerships
- Leadership



Understanding the African Market Environment – The Positives

- Africa is a market of nearly 1 billion people
- Excellent market opportunities for a number of U.S. agricultural products
- Recognize that the more difficult the market environment the more opportunity that exists
- After decades of declining foreign assistance, the world community is again becoming engaged in Africa – possible increase in funds and resources
- Increased recognition of the private sector's role in Africa's economic and agricultural development



Understanding the African Market Environment –The Negatives

- Market access for U.S. agricultural products is often impeded by inefficiencies found in African agricultural sectors such as:
 - Regulatory systems
 - Supply and demand structures
 - Agricultural production and trade policies
 - Technology transfer mechanisms
 - Infrastructure and organizational deficiencies
 - Low integration into the global economy and markets
 - Undeveloped regional markets
 - Lack of privatized industries



Developing Your Core Competency

- Attend seminars and workshops organized by potential donor organizations
- Read reports, project assessments, and professional papers to understand the African environment from a potential partner's perspective
- Be proactive in introducing your affiliation and interests to these donor organizations – most are public institutions that have an “outreach” component for the development of partnerships
- Recognize your organization's strengths and weaknesses within the context of African market development
- Package and sell your organization's strengths as a potential resource for African economic development. Identify partners with resources that compensate for your weakness
- Learn to talk the “language” to effectively sell your ideas



Developing Viable Strategies

- Effective strategies pose solutions to the “negatives” relative to the African market environment
- Technical assistance activities are often more viable than market promotion and access initiatives
- Strategy should be a “win-win” for Africa and the foreign company/industry
- Strategies should include partnerships with relevant stakeholders, donors and allied organizations



Formulating a Vision

- Need to formulate a holistic vision for market development and investment in Africa
- Subsequently, break down this holistic vision to a national and regional focus
- Determine the role(s) that your company/organization can/needs to play within African economic development
- Articulate this vision to potential stakeholders and donors
- A viable vision will enable you to immediately discern an “opportunity” from a “waste of time”
- A vision will also allow you to use limited resources in the most effective and efficient manner



Developing Partnerships and Strategic Alliances

- Few, if any, organizations/companies working in Africa have adequate resources to accomplish all that is needed
- Donor organizations often welcome partnerships with other public and private organizations - pooled resources and shared accomplishment
- Need to think “outside the box” and explore relationships with all organizations with which you share a common objective



Potential Partner Organizations (1)

Examples:

- **World Bank** – Disperses loans to client country governments for agricultural and economic development. Often seeks partnerships to implement “terms of reference” associated with loan
- **USAID** – Funds for Policy and Regulatory Reform and Market Regionalization
- **African Development Bank**
- **Food and Agricultural Organization of the United Nations** – Policy Workshops



Potential Partner Organizations (2)

- **Private Voluntary Organizations** (e.g., Peace Corps, World Vision, SG2000, Religious Organizations etc.)
- **Private Consultant Companies** (e.g. DAI, ACIDI/WOCA, etc.)
- **Rockefeller Foundation**
- **Ford Foundation**
- **Land Grant Universities** (e.g. the Association for International Agriculture and Rural Development – AIARD)



Potential Partner Organizations (3)

- **Host Government Agencies**
- **Multinational Companies** (e.g., petrochemical, life science and pharmaceutical companies etc.)
- **International and National Research Institutions**
- **Foreign Government Donor Agencies** (DANIDA, GTZ, etc.)
- **Allied and/or Competitor Organizations** (e.g., National/Regional/International Trade Associations)




Leadership

- Leadership is essential to bringing all potential partners to the table
- Leadership is the catalyst
- Leadership is the glue for leveraged resources.



Concluding Remarks

- Accomplishment of the “elements” will better position your organization to leverage future resources for market development and investment
- Utilize existing USDA market development funds to support larger and broader initiatives requiring a pooling of resources (e.g., World Bank loans and “Terms of Reference)
- Develop internal advocacy mechanisms through use of market development funds to promote a viable trade policy and regulatory environment, (e.g. African Seed Trade Association)



Concluding Remarks (2)

- Success begets success – start with a manageable partnership. If successful, more opportunities will naturally develop
- View your organization as an essential part of a global mechanism – not as the stand alone entity with its own strategies and objectives
- As you develop partnerships and leverage resources from other entities do not lose sight that the objective is what counts – not the money. A myopic pursuit of money only obscures opportunity
- Your competitors are engaged in Africa – don't miss the current window of opportunity

Options for Sugar Trade in the Upcoming WTO Negotiations

Dale McNiel

Partner, Ablondi, Foster, Sobin & Davidow, P.C.

Ladies and Gentlemen, it is a pleasure to see all of you here at the Outlook Conference. With a lovely springtime coming here in the Washington area, the domestic and world sugar markets are in disarray with surplus supplies and depressed prices. And the world is about to embark on a new round of negotiations on agricultural reforms. It is a good thing the sun is shining and the air is fresh and warm. This morning, if I can resist going out to bask in the sun, I expect to offer my perspectives on whether the World Trade Organization (WTO) trade talks will yield real changes in sugar policies?

I believe there are two principal alternative scenarios for the outcomes of the new multilateral trade negotiations on agriculture that were recently authorized by the WTO General Council and will begin next month in Geneva in conjunction with the meetings of the Agriculture Committee. In the first scenario, the participants will agree to continue to use the Uruguay Round pattern of reductions and will agree to significant but modest further reductions. In the second scenario the participants will fail to agree on further reforms. Let's see how sugar would fare under these scenarios.

First, let's consider domestic support and the scenario of further cuts along the same lines as before. Domestic support was divided into three categories: amber, blue, and green, and reduction commitments were based on an Aggregate Measure of Support (AMS) for amber box policies.

The green box consists of non-trade distorting policies, like research and inspections and infrastructure, that are exempt from reduction. The United States claims that the Freedom to Farm production flexibility contract payments fall into the green box as decoupled income support. Of course, sugarcane and sugar beet growers don't receive such decoupled income support payments either in the United States or in Europe or anywhere else that I know.

The blue box consists of direct payments to farmers tied to production limits, such as the former U.S. deficiency payments for corn and wheat and other field crops which were subject to acreage reduction programs. The blue box payments were included in the base AMS from which reduction commitments are calculated, but such payments are exempt from reduction. This was a smoke and mirrors device agreed to in the Blair House Accords between the United States and the European Union that escaped the attention of most other countries. Currently, the EU and Norway constitute the main users of blue box policies. Some countries – including the United States – have advocated terminating the blue box, but there are no such payments to sugarcane or sugar beet farmers and the end of the blue box would have little impact on sugar trade.

All other trade-distorting support policies, other than blue box and green box policies and certain de minimis and special and differential policies, were gathered together into the Aggregate Measure of Support (AMS) and subject to reduction by 20% over 6 years, although with a credit for blue box subsidies and prior reductions. The United States ended up with large credits due to counting deficiency payments in the base AMS and taking credits for reductions in agricultural support in the 1985 and 1990 farm bills. In addition, the Freedom to Farm bill in 1996 moved a large part of the budget for agricultural subsidies from the amber box into the green box. In Europe, CAP reform in 1992 and since has moved a substantial share of the EU agricultural support expenditures from the amber box to the blue box in the form of blue box payments to wheat and cereals farmers.

As a result, neither the United States nor the European Union has been required to reduce anything. The U.S. price support program for sugar beets and sugarcane has continued at basically the same loan rates as have prevailed since the 1985 farm bill, and the EU sugar regime has not faced any significant reform.

In the next talks if there is an agreement for further domestic support reductions, it will likely be in a similarly modest scope due to the policies and politics of the European Union, Japan, Korea and some other like-minded countries. Another 20% or 30% cut in the AMS would still leave the United States with a large credit and would not require any change to the sugar price support program.

Under the no deal scenario, the status quo would prevail until the expiration of the peace clause in 2003. The peace clause provided a 9-year exemption from the Subsidies Agreement for domestic support measures that were in compliance with reduction commitments and that did not grant support to a specific commodity in excess of the support provided in the 1992 marketing year. The Subsidies Agreement makes domestic subsidies subject to challenge under WTO dispute settlement procedures if they cause injury to the domestic industry of another Member, or nullify or impair tariff concessions, or cause serious prejudice to the interests of another Member. Serious prejudice is deemed to exist if there is debt forgiveness (such as would happen upon loan defaults and collateral forfeitures) or subsidies to cover operating losses or if the total ad valorem subsidization of a product exceeds 5 percent.

The definition of a subsidy in the Subsidies Agreement includes any form of price support that confer a benefit. This would include the U.S. price support for sugarcane and sugar beets and could result in a challenge on the basis that it does allow for debt forgiveness in the event of forfeitures and does provide support in excess of 5% ad valorem if the difference between world prices and domestic loan rates are compared. Thus, the failure to reach an agreement in the upcoming agriculture talks could result in a much more significant challenge to the sugar price support program than if an agreement is reached to commit to further reductions of the AMS. The EU sugar regime and many other countries' sugar policies could also face WTO challenges under the Subsidies Agreement.

Next, let's take a peek at market access. In the Uruguay Round all non-tariff barriers to imported agricultural products were converted to tariff equivalents and all tariffs were bound and subject to

reduction. Developed countries committed to reducing the tariff average by 36% and each tariff line by at least 15% over 6 years. Developing countries agreed to 24% reductions of tariff averages and 10% minimum cuts over 10 years. "Current access" commitments required that market access could not be reduced from the quantities imported in the 1986 to 1988 base period, and minimum access commitments required developed countries to allow imports equal to at least 5% of domestic consumption by the end of the 6-year transition period.

What happened to sugar under the U.S. commitments on market access is difficult to explain. The U.S. had previously tariffed its absolute quota in 1990 with an unbound over-quota tariff rate of 16¢ per pound and no minimum quantity. In the Uruguay Round, the U.S. "re-tariffed" its former absolute quota (which had been found to violate the GATT by a dispute settlement panel) and achieved an 18¢ over-quota tariff which when fully reduced will be 15 1/3¢ per pound. This translates to a cut of less than 4% of the pre-existing rate of duty. The U.S. also accepted a current access commitment of approximately 1.25 short million tons, representing the average of imports during the 1986-1988 base period.

Will this exceptional result be possible again? Not likely. Many countries are calling for targeting tariff peaks, or tariffs over 20% ad valorem, for drastic reduction and demanding an end to the special agriculture safeguards. The tariff-quota rates are now bound and further reductions would be likely to be in the 20 to 40% range from the bound rates, if an agreement can be reached in this new round. This would leave an over-quota rate of about 12 1/4¢ to 9.2¢ coupled with a special safeguard triggered by prices or quantities. Considering transportation costs, a 20% reduction could still protect a 22¢ domestic raw sugar price whenever the world price was about 8 1/4¢ or more or an 18 3/4¢ price with world raws selling at 5¢ per pound.

Under the no-deal scenario, there would be no further reduction in the MFN tariff rate and the special safeguard would remain in place. This would mean no increase in imports from countries not parties to free trade agreements. Under this scenario, the domestic sugar industry would clearly benefit from the failure to conclude an agriculture agreement under the new round of trade talks.

Finally, let's take a look at export subsidies. In the Uruguay Round, the parties generally agreed to reduce export subsidies by 21% in terms of the quantities of subsidized exports and 36% in terms of the budgetary outlays. A flexibility provision allowed catching up in later years if subsidies exceeded the commitments. Since the round ended, a WTO dispute settlement panel and the WTO Appellate Body have ruled in the Canadian dairy case that a governmental regime for providing milk for producing exported dairy products at prices below domestic market prices constitutes a export subsidy payment subject to reduction commitments.

The United States has not yet provided explicit export subsidies for sugar and has a WTO commitment not to begin subsidizing sugar exports. The European Union uses export restitutions for B-quota sugar and C sugar is priced to be exported without explicit export restitutions. The EU commitment for 2000 marketing year limits subsidized exports to slightly under 500,000 metric tons. However, the EU claims that it is entitled to deduct the quantity of imported sugar from its subsidized exports, deriving a "net export" figure, but the claim may not be justified.

under WTO agreements and precedents. Nonetheless, the EU has had to also claim a “rollover” of “credits” for unused export subsidies in 1995 and 1996 under the flexibility provisions even though the flexibility was not intended to allow such a rollover. Moreover, EU exports of C-sugar which don’t qualify for restitution payments could be considered subsidized under the precedent established by the WTO panel in the Canadian dairy case, which has strong resemblances to the EU sugar regime. This would make exports of more than 5 million metric tons of B and C sugar subject to challenge under current WTO disciplines.

If the current negotiations reach a successful resolution on the Uruguay Round pattern, the European Union will have to make further cuts in subsidized sugar exports. If there is no agreement and the peace clause expires, the EU sugar export subsidies will fall under the Subsidies Agreement’s total ban on export subsidies by 2003. That could force a major overhaul of the EU sugar regime. Under either scenario, the world market should be tighter and sugar prices should rise.

What indications are there that will be a deal or not? Firstly, trade negotiations on agriculture have usually been a battle between the United States and Europe. In the last round, the Cairns Group of exporting countries – Australia, Canada, Brazil, Argentina, New Zealand, South Africa, Mexico, Thailand, the Philippines, Hungary, Columbia, Uruguay, Indonesia, Malaysia, Paraguay, and Fiji – generally supported the United States for moving toward free trade of agricultural products. Japan, Korea, and the EFTA countries (Sweden, Norway, Austria, Switzerland, and Finland) generally supported the European Union in resisting any substantial reforms. These alliances are likely to continue. In addition, China will accede to the WTO and can be expected to resist any demands for more access to its market after having made major concessions in the accession negotiations.

Moreover, it is widely believed by people who participated in the last round of agriculture negotiations that agriculture cannot stand on its own without forming part of a deal that includes other sectors of the economy. This is because each participant needs to sell a deal domestically as something beneficial. But it is very difficult to see how the European Union or Japan or Korea can sell a deal at home that just reforms agricultural policies. Such a deal would be opposed by politically powerful agriculture interests and would not be sufficiently supported by broader interests. Even the United States could face serious problems getting Congressional approval of a deal that only included agriculture.

What can we conclude from all of this? The U.S. sugar industry faces a real challenge in the new WTO talks if there is an agreement to significantly improve market access by targeting tariff peaks or eliminating special safeguards, but it may be helped by the EU, Japan, China and Korea and others in resisting such reforms. On the other hand, if there is no new agreement, the sugar industry could face a challenge to the price support program under the provisions of the Subsidies Agreement after the peace clause expires. Under either scenario, domestic growers and processors must closely monitor the trade talks and hope that their interests are taken into account.

ENHANCED MARKET ACCESS THROUGH ELECTRONIC COMMERCE

Presented to:

USDA Agricultural Outlook Forum 2000
February 25, 2000

By
Henry R. Lambert



ENHANCED MARKET ACCESS THROUGH ELECTRONIC COMMERCE

- What is an efdex?
- E-Commerce Defined
- The Food Industry: Ripe for E-Commerce solutions
- Market Opportunity: Size and Scope
- From Commerce to E-Commerce
- Benefits of E-Commerce



WHAT IS AN efdex?

- B2B Electronic Trading Community for the Food and Beverage Industries
- Global, Multi-channel
- Enables revenue growth and efficiencies across entire supply chain
- Live network in UK, US launch mid-2000



DEFINING E-COMMERCE

- Business-to-Business, real-time information exchange and transactions conducted over the internet
- Integrated end-to-end solutions: Demand Creation ⇔ Purchase Order Fulfilment and Invoicing ⇔ Inventory Management ⇔ Financial Systems
- Multiple potential interfaces
 - one-to-one
 - one-to-many
 - many-to-one
 - many-to-many

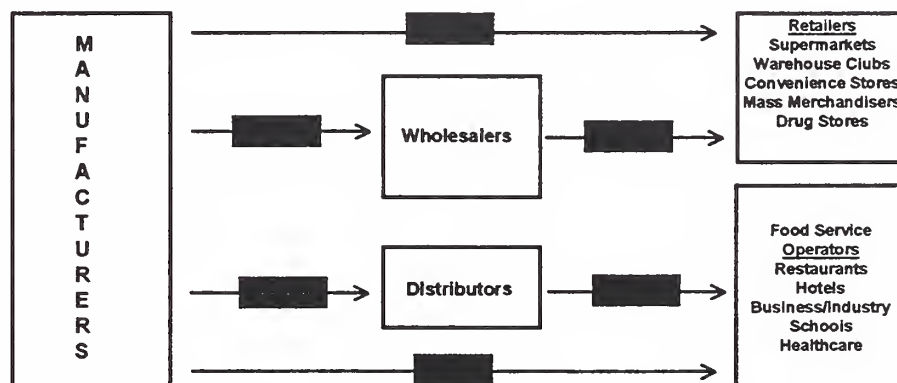


THE FOOD INDUSTRY: RIPE FOR E-COMMERCE SOLUTIONS

- The supply chain is highly fragmented
- Processes are inefficient and costs are high
- Competition is intense
- Margin pressure is intense
- Barriers to market reach/trading constraints exist
- Information flow and communications are constrained



US FOOD AND BEVERAGE MARKET OPPORTUNITY: SIZE AND SCOPE



TOTAL OPPORTUNITY = \$764 BILLION



FROM COMMERCE TO E-COMMERCE

COMMERCE

Paper product catalog and price book



Online catalog and price book

Product and price changes, new product information faxed or mailed to trading partner



Product and price changes, new product information electronically communicated instantaneously, becoming data-of-record

Promotion information mailed, faxed, verbally communicated



Promotions communicated electronically, becoming data-of-record



FROM COMMERCE TO E-COMMERCE

COMMERCE

Manual, time delayed tracking of product movement



Product movement data captured and tracked electronically, real time

Paper purchase orders, invoicing and record keeping



Electronic purchase orders, invoicing and record keeping

Constrained Market Reach



Reach all networked potential trading partners simultaneously, instantaneously

Sales calls focused on order taking and invoice dispute resolution



Sales calls focused on strategic selling, business development



BENEFITS OF E-COMMERCE

- **Improve market reach, grow revenues, gain market share**
- **Reduce costly inefficiencies: invoice errors/deductions, administrative processes**
- **Enhance communications**
- **Accelerate time to market**
- **Collaborate with trading partners in real time**



BENEFITS OF E-COMMERCE

- | | |
|--|--|
| • Improve market reach, grow revenues, gain market share | • Improve responsiveness to customers |
| • Reduce costly inefficiencies: invoice errors/deductions, administrative processes | • Accelerate inventory turns |
| • Enhance communications | • Improve decision making |
| • Accelerate time to market | • Compete more effectively |
| • Collaborate with trading partners in real time | • Improve profitability |



SWEETENER TRADE ISSUES: A VIEW FROM CAPITOL HILL

Thomas Mahr

Legislative Director to Senator Kent Conrad (D-ND)

Good afternoon. It is a pleasure to be here today to talk about the outlook for trade legislation and sweetener trade issues.

My name is Tom Mahr, and I am legislative director to Senator Kent Conrad of North Dakota. I have covered international trade issues for the Senator since 1993. Senator Conrad is a senior member of both the Finance and Agriculture Committees, the two committees in the Senate with jurisdiction over agricultural trade issues. Senator Conrad, as many of you probably know, is a vigorous and vocal proponent for American farmers. Most relevant to today's topic, Senator Conrad represents the \$1.5 billion Red River Valley sugar beet industry and is an active member of the Senate Sweetener Caucus.

I'd like to cover two sets of three issues this afternoon, and then I'd be happy to take questions. First, I'll try to put sweetener trade in context by talking more generally about the three trade items on the Congressional agenda for the year. Then, I'll discuss the three top trade issues facing the sweetener industry.

LEGISLATIVE OUTLOOK

The Congress will consider three pieces of trade legislation this year. Only one of these has any potentially significant implications for sweetener producers, and it's probably the one to which you've paid the least attention.

China WTO Accession

First, China's accession to the WTO is by far the highest profile trade issue facing the Congress this year. Clearly, the accession agreement has huge implications for US agriculture, which I'm sure you've heard about from a number of speakers in the last 24 hours.

Sometime later this year, once China completes its accession negotiations with other members of the WTO, the Congress will need to grant China permanent Normal Trading Relations (PNTR) if the U.S. is to benefit from the agreement. Most Congress watchers are predicting that this will be NAFTA all over again. The US business community is leading an all-out lobbying campaign for PNTR. Labor is waging an equally aggressive fight against PNTR. The vote is expected to be very close in the House, but passage in the Senate is seen as likely.

This is largely a spectator sport for the sweetener industry. It's a safe bet that there won't be any sugar side letters to smooth passage of the China deal: the China accession agreement does not grant China any additional access to the US market.

WTO Withdrawal

The second issue that the Congress will almost certainly face this year is a resolution withdrawing the United States from the WTO. Under the terms of section 125 of the Uruguay Round Agreements Act, the President must submit a report on the operation of the WTO by March 31. Then, any member of Congress may introduce a resolution withdrawing the approval of the Congress for the WTO Agreement. This resolution -- which a number of members have already indicated will be introduced -- will be considered under fast track procedures that guarantee an up-or-down vote in both the House and Senate within 90 days of its introduction.

Despite the protests in Seattle and a general dissatisfaction with some elements of the Uruguay Round Agreements (particularly dispute settlement and the European subsidy advantage in agriculture), I would not usually expect that this would be a close vote. The Uruguay Round Agreements were approved by a comfortable margin, and even some opponents would concede that pulling out of the WTO would be very disruptive.

However, the China politics may make this vote closer than it would otherwise be. Some Members of Congress who are looking for political cover on a tough China vote may decide to vote against continued US participation in the WTO. The thinking is that this is a "free vote" in the House. Even if the House passes a withdrawal resolution, the theory goes, the Senate won't-- or at least not by a large enough margin to override a certain Presidential veto.

Again, this is a spectator sport for the sugar industry. As a practical matter, even if the US were to withdraw from the WTO, it is unlikely that we would modify our sugar TRQ. And, in any case, this would be of little practical benefit to the US industry unless the NAFTA provisions were modified at the same time.

Africa Trade Bill

The surprise bill on my list is the Africa trade bill, which is currently waiting for conference committee action. This legislation would grant tariff preferences to a range of products from sub-Saharan Africa, most notably textiles. The hope is that these preferences will create incentives for building infrastructure and light manufacturing plants, and foster economic development in sub-Saharan Africa. As proponents like to say, it embodies a new approach to helping this region: trade, not aid. The main disagreement to be resolved in the conference is whether and to what extent textile products must be made from US components in order to qualify.

So why is a bill focused on African textile tariffs potentially of interest to the sweetener industry? Unlike the House version, which was narrowly limited to the Africa trade preferences, the Senate bill contained a number of other measures, including a provision making the agriculture ambassador at USTR a permanent position, language laying out the US negotiating objectives for the WTO round on agriculture, and a Trade Adjustment Assistance (TAA) for Farmers program. These are all issues that Senator Conrad has taken a leading role on -- he called for the creation of a special negotiator for agriculture in 1993, leading to the creation of the current special ambassadorship, and he sponsored the agricultural negotiating objectives language in the Senate -- but I'd like to concentrate for a moment on the TAA for Farmers program.

As most of you probably know, the Trade Adjustment Assistance program has been around since the Kennedy Administration. It is designed to give temporary cash assistance to workers when they are adversely impacted by import competition resulting from trade liberalization. To qualify, workers must participate in worker retraining programs. Unfortunately, the program inadvertently prevents farmers from getting assistance because a worker needs to lose his or her job to qualify. That's fine for manufacturing workers, but when a farmer is faced with import competition, he doesn't lose his job. Instead, what happens is that commodity prices drop and the farmer's income can be dramatically reduced. The impact on the farm family can be just as dramatic as if the farmer had lost his job, but the farmer doesn't qualify for TAA.

Senator Conrad's amendment would create a new TAA for Farmers program to provide cash assistance of up to \$10,000 per farmer when the price of a commodity drops by more than 20% and imports "contribute importantly" to the price decline. In order to qualify, farmers would need to meet with extension service agents to plan how to adjust to the import competition.

Although it was not designed with sugar producers in mind, current prices and the threat of increased imports from Mexico suggest that this could be a very important program for sugar producers in the future. Senate conferees are trying to hold this provision, but there is stiff resistance from the House so the outlook is unclear.

SUGAR TRADE ISSUES OFF THE HILL

As a practical matter, this focus on high profile legislation – a distinct change from the past five years, during which trade has not taken center stage on the Hill – means that other trade issues will have a hard time competing for time and attention.

That's unfortunate for this industry, in two respects. First, because the US sweetener industry has a very good story to tell. Second, because the industry faces a number of critical challenges on the international trade front.

Before I focus on the trade challenges facing the industry, let me take just a couple of seconds to highlight the competitiveness of the U.S. sugar industry. I think a few facts speak for themselves:

- The U.S. is the lowest cost producer of beet sugar and corn sweetener in the world.
- Overall, the U.S. average cost of production for all sweeteners ranks 12th out of 112 producing countries.
- Retail sugar prices in this country are 1/3 less than the developed country average.
- The U.S. ranks 2nd lowest in the world (after Singapore) in the minutes of work required to buy one pound of sugar

These facts sometimes get lost in misleading references to the world dump market price for sugar, which is currently far below the unsubsidized cost of production anywhere in the world.

Let me turn to the top trade challenges facing the sweetener industry.

WTO Agriculture Round

As those of you who, like me, spent several days locked in your hotels in Seattle already know,

the new round of agriculture talks did not get off to quite the start that was anticipated. Clearly, though, agriculture talks are going to move forward, and this provides a forum for critics of the U.S. sugar program to call for its demise.

In Seattle, the U.S. sugar industry came under attack from a number of sugar exporting countries hoping to dismantle the U.S. sweetener program. I have a couple of observations about these attacks.

First, these attacks seem to be predicated on the argument that if the U.S. imported more sugar from the world market, retail prices in the grocery store would fall. Well, it's a nice theory, but in the real world retail food prices -- whether it's pork, beef, bread or sugar -- continue to rise even as prices received by farmers fall to record lows.

Second, and perhaps more importantly, what these critics are advocating is unilateral disarmament. Their assumption is that if the US dismantles its programs, others will follow suit.

Well, that theory has also been put to the test. In the 1996 Farm Bill, supporters argued that if we cut US farm programs, our friends in Europe would follow suit. That just hasn't happened. In fact, in Seattle, the Europeans were the primary opponents of further disciplines on trade distorting subsidies and supports. The lessons I and many on Capitol Hill took away from Seattle were that unilateral disarmament doesn't work and that, in fact, we need to increase support for U.S. agriculture to gain leverage with the Europeans, not reduce support.

In light of these lessons, it would be truly ironic if the net result of attacks on the US sugar program was an increase in heavily subsidized production of EU sugar to capture the US market.

At this point, though, it seems unlikely that WTO talks on agriculture will move forward in any serious, substantive fashion in 2000. This year will be spent laying the groundwork for talks after elections in this country and, next year, in France. This gives the sweetener industry an opportunity to make its strong case for retention of the US sugar program until and unless our less efficient competitors partners are willing to give up their trade distorting practices.

Mexico

Mexico poses a much more immediate challenge. In the waning days before the NAFTA vote in the House, it became clear to both the Administration and Mexico that the votes were not yet there to pass NAFTA. The original sugar provisions would have allowed Mexico to ship its entire net surplus production to the U.S. starting in October 2000, and congressional supporters of the sugar industry had made it clear that they could not support NAFTA unless this was fixed. As a result, Mexico agreed to a sugar side letter that limits imports from Mexico to 25,000 tons through this year, and 250,000 tons starting next October 1. As someone who was a close observer of this process, I can assure you that there was no doubt in anyone's mind -- on the Mexican side or on our side -- that the Mexicans had to agree, and had in fact agreed, to whatever terms the U.S. demanded on this issue as the price for passage of the NAFTA.

More recently, however, the Mexicans have dramatically increased sugar production and they

need a market for their surpluses. Engaging in some revisionist history, they now claim that the side letter is not valid. Although it seems unlikely that Mexico would prevail in a dispute on this issue -- the negotiating history is clear -- the consequences of a Mexican victory would be devastating. Mexico could immediately ship its entire surplus production of about 800,000 tons to the U.S., swamping the U.S. market. Of course, if Mexico were to swamp our market, it would kill the proverbial golden goose. Since that is not a result that is in either our interest or Mexico's interest, both Mexico and the US have expressed some interest in reaching a negotiated settlement on these issues.

Separately, both the NAFTA and the side letter subject over-quota amounts of sugar to a declining second tier tariff. At the time NAFTA was negotiated, world prices were high enough that it was thought that this tariff would be prohibitive until the final few years of the NAFTA's 15 year transition period for sugar. Now, though, world prices have dropped to the point that it became cost effective for Mexico to ship small amounts of over-quota sugar to the US last year.

However, it is important to note that Mexican imports in an amount sufficient to injure the US industry would provoke an almost certain anti-dumping or countervailing duty case. Again, that would not appear to be in Mexico's interest, nor that of the U.S. industry. Clearly, though, the threat of dramatically increased imports is already having a significant impact on U.S. sugar prices. This makes it vitally important that these two issues be resolved to the satisfaction of the US industry, and at a meeting with the Senate Sweetener Caucus last fall, Ambassador Barshefsky committed her agency to finding a solution.

Stuffed Molasses

Finally, the sugar industry is plagued by imports of so-called "stuffed molasses." A company in Michigan discovered a couple of years ago that it could evade the sugar TRQ by mixing sugar into a water and molasses mixture. Once the sugar has cleared Customs, it is removed from the molasses mixture, and in some cases the molasses is re-exported to be used again in this operation.

This product has no use other than to evade the sugar TRQ, and the Customs Service, at Senator Conrad's urging and with the support of USTR and USDA, recognized that this practice was undermining US trade law and the US sugar program. In response, Customs reclassified stuffed molasses within the TRQ. Unfortunately, the Court of International Trade has since ruled that Customs acted inappropriately and overturned the reclassification decision. The industry and Administration are preparing for an appeal of this ruling. However, if the CIT ruling stands, other importers will quickly exploit this newly created loophole in our Customs law, putting the sugar program at risk. For that reason, it is my understanding that members of Congress have started to look at a legislative fix on this issue.

CONCLUSIONS

The US sweetener industry faces tough trade-related challenges. It is under direct attack from Mexico and stuffed molasses. And a coalition of sugar users and exporting nations hopes to use the WTO round to eliminate the US sweetener program, leaving the market to less efficient, more highly subsidized producers.

The good news for the sweetener industry is that it has a good story to tell, and it has powerful support on Capitol Hill. After a narrow victory in 1996, the sugar industry has defeated attempts to kill the sugar program by increasingly comfortable margins. Members of Congress and their staffs recognize that the sugar program makes sense for both producers and consumers, and that it doesn't make sense to jettison our highly competitive sweetener industry to allow subsidized imports from inefficient producers.

However, the industry can't rest on its laurels. As you can tell, trade issues generally are high on the Congressional agenda this year, but sweetener trade issues are not central to the debates. That means people who care about these issues will have to work harder than ever to make sure your issues and your concerns stay on the radar screens of members and their staffs. The simple fact is that Congressional offices typically develop a system of triage to deal with the multiple issues coming at them. Unless your issue is on the committee or floor schedule – and sweetener issues won't be front and center this year – you need to work especially hard to make sure your message gets through.

ORGANICS: YESTERDAY, TODAY AND TOMORROW

Larry Jacobs
CEO
Jacobs Farm / Del Cabo, Inc.

Historical Background

Ten thousand years ago, in what is now Iran, an astute observation was made. Wild grains discarded in a cleared area gave rise to a high concentration of desirable plants. The realization that intentionally "trampling" seed into the ground exponentially increases the caloric output per acre began a revolution that changed the world. We've been improving on that observation ever since.

The history of agriculture is a trail of technologic, social and economic upheaval. It created new economies and birthed empires as it doomed the hunter gatherer and nomad. Agriculture dramatically changed our landscape and made possible urbanization.

Ironically, where agriculture first proliferated there are no thriving farms. The fertile crescent is no longer fertile. North Africa, once the cereal bowl of the ancient world, is famous for the Sahara Desert. Our forefathers did not understand how tilling the earth and grazing livestock can accelerate erosion and degrade soil.

As technology advanced, we did more in less time and with less labor.... but as in ancient times, with unforeseen costs.

- Animal traction and the plow accelerated erosion.
- Internal combustion engine and tractors increased amount of land susceptible to wind and rain erosion.
- The chemical revolution introduced DDT, organophosphates, and other carcinogenic materials and hormone mimickers from the Arctic to the Antarctica.

Each development improved efficiencies and yields. Each breakthrough had hidden costs creating future problems.

State of the Art Organic Research

Organic agriculture did not exist as a concept in 1900. Encouraging nature to control pests was not the realm of organic farmers and biological control was not considered "fringe" at the turn of the last century. It was state of the art and USDA lead the way.

Between 1899 and 1905, USDA sent entomologists to Australia to collect predator insects. A new pest threatened the growing California citrus industry. A tiny

nondescript scale-like insect in the homoptera family was ruining citrus groves. USDA scientists believed the pest originated in Australia and hoped to find a natural control in its native habitat. Despite slow boats and poor refrigeration several species survived the long journey across the Pacific. One in particular, Coleoptero vidalia thrived on the new pest. It voraciously consumed the tiny citrus scale and reproduced. A branch laden with this new migrant beetle was sent to another infested orchard where it again decimated the pest population and thrived. Coleoptero vidalia quickly became established wherever citrus scale was found. Today, the pest is only seen when broad spectrum pesticides are applied over a large area killing off the little celebrated Australian beetle. Fortunately, it reestablishes itself quickly.

The search for and introduction of beneficial insects to control plant pests was in its infancy. The introduction of the Australian predator demonstrated the strategies effectiveness. Citrus growers liked it because it worked and cost nothing once established.

This was applied farm research at its best. It established a natural control that continues to protect the citrus industry today. It is what organic farmers strive to achieve in their fields.

Why was biological control research curtailed? Why didn't we continue our study of nature and ecosystems to improve the way we manage our farm systems? Part of the answer is new technology offered new promising chemicals that could be sold creating economic incentives for the development of more chemical solutions.

The Beginnings of Chemical Agriculture

Since biblical times farmers were at the mercy of plagues. The chemical revolution of the 40's and 50's promised a change. The search for chemical weapons spawned a new generation of chemicals including DDT. DDT had no clear use until someone realized its potential as an insecticide. Spray it on and watch them die. Farmers were impressed. The new agricultural chemicals were modern, effective and affordable. America's chemical companies churned out the new arsenal that changed how we farm for the next fifty years.

Chemical fertilizers also gained popularity. Agricultural extension workers taught fertilizer (NPK) theory and application techniques as increased yields were demonstrated in field trials and university plots across the country. Unfortunately, the role and importance of soil microbiology to plant development and soil fertility was demoted to academia.

Chemical farming was born with great fanfare. Armies of specialists preached its virtues. Hopes ran high for better yields and miraculous pest controls. At the same time, some growers believed their pest problems were exasperated by the new chemicals as experts recommended more sprays for new pests. The phrase "pesticide treadmill" was coined to describe the cycle of spray, disruption of natural

controls, new pests, spray, disruption of natural controls, new pests, spray.... Some farmers and field workers had allergic reactions. A few abandoned the chemicals and returned to their own search for better ways to farm.

Yesterday's Organic Farmers

This small group who rejected the new chemicals were considered backwards. They became known as ORGANIC FARMERS as the public awoke to the poisons we unleashed on ourselves.

Rachel Carson's 1960's book Silent Spring birthed the environmental movement. Young and old became concerned with pesticide contamination and wanted food grown without pesticides. By 1980 the organic food industry was established, insignificant in size, but committed.

In the early 80's, organic farmers were a few old time growers and concerned hippies, not part of mainstream agribusiness. These were the growers who supplied the neighborhood-buying coops, health food stores and local farm stands. Demand for organic food grew as more small farms produced food free of chemicals. The emerging market was willing to pay for pesticide free food and considered the upfront cost of organically grown a bargain compared to long-term health risks associated with pesticide residues.

Hard numbers for the organic industry are sketchy and difficult to interpret. Nevertheless, the Natural Foods Merchandiser (NFM) estimated 1981 organic food sales of \$21 million while the Organic Trade Association website notes \$178 million in 1980. In San Francisco, the first wholesale distributor of organically grown food, Veritable Vegetable, was well established as organic farmers formed regional organizations, defined standards, shared ideas and promoted organics.

Those of us with our hands in the dirt wanted information and understanding about organic methods. We devoured old books like Farmers of Forty Centuries by King and read Sir Albert Howard's An Agricultural Testament on soils and composting. We made insect smoothies to spray on tomato plants from which Baccillus thuringiensis was later isolated and incorporated into commercial products including Javelin for worms like cabbage loopers, Novodor for Colorado Potato Beetle and Mosquito BT Dunks. We learned about crop rotations as practiced in ancient times and feeding soils by incorporating legumes such as lupines, peas, vetches, beans and other plants. We paid our own way as we rediscovered good soil husbandry and sought better cultural practices to manage eco-farming systems. At universities we studied soil science, crop production and plant pathology as we plagued professors with questions about the chemical pesticides and fertilizers being taught in the classroom.

By the mid 1980's, the organic market was beyond it's infancy. The Natural Foods Merchandiser reported \$78 million in 1988 sales (271% increase over 1981). There was

a resurgence of small ORGANIC farms and 1990 organic sales reached \$182 million according to NFM.

This small group of dedicated individuals led the way with minimal outside support or funding. We paid for promotions, research, certification and lobbying. In 1990 California passed the California Organic Foods Act. Formulated by farmers, it defined ORGANIC.

Organic Farming Today

In 1995 NFM reported organic market sales at \$402 million, while land in organic production was less than .5% of cultivated farmland.

The public's skyrocketing demand for organic products pressured traditional chain stores to take notice as natural foods retailers nibbled at their high end customer base. Two national chains, Whole Foods and Wild Oats, emerged as dynamic retailer leaders promoting organically grown food. Media coverage, like the Alar apple scare, continued to increase the public's demand for organically grown food and concern for pesticide contamination.

As increasing demand and higher prices attracts more growers, there is a growing need to understand and substantiate organic farming practices. Soil scientists and microbiologists have begun to shed light on the complexity and importance of soil microbiology in organic farming systems as well as measurable advantages over chemical fields. The relationship between soil fertility and European Corn Borer was reported at the (1998) Asilomar Organic Farming Conference (Monterey, CA) substantiating claims of lower pest pressures in organic fields than neighboring conventional producers.

Until 1999 the demand for organic produce regularly outstripped production. Conventional growers, attracted by prices 20% to 100% above conventional markets and growing demand, are converting to organics. Like the Silicon Valley's dot.com race, the Salinas Valley companies are in their own race for organic ground. The profile of the organic farmer is changing from the small family farm to companies that mirror conventional production. The Pavich family has over 1,000 acres of certified organic grapes, Tanimura & Antle, one of California's largest lettuce grower/shippers recently announced the conversion of 1,500 acres to organics and joined Natural Selection Foods. In the fresh produce side of organics, production has surpassed demand in several categories. Banana producers reduced prices to capture market share and expand into conventional markets. Organically grown packaged lettuce is omnipresent competing side-by-side with conventional product. Organically grown snow peas, snap peas and cherry tomatoes have all surpassed the current organic market's winter capacity. Lower prices, especially during the competitive summer months is forcing many small organic growers to rethink their marketing strategy or get out of the game.

Demand and production of organics in other countries is also growing. Europe, particularly Germany, England and the Scandinavian markets have grown quickly and offer export opportunities for US growers. Mexico's department of agriculture, SAGAR (Secretaria de Agricultura), has promoted organic farming for the past three years. At the tip of the Baja California peninsula, Mexico, Del Cabo, an association of over 150 families, ships in excess of 600,000 cases per year while in Mexico's southern state of Chiapas, several thousand small coffee growers export organically grown coffee. Supermarkets in Costa Rica and Argentina sell locally grown organic products as well as imports. Other Latin American and African countries perceive opportunities for small producers to enter the growing global organic market and currently export a wide range of crops including sesame and chocolate.

In California, organic acreage has increased, though the number of growers may be down or holding steady. California data indicates number of organic growers between 1993 and 1994 decreased from 383 to 338 (11.7%) while the acreage increased from 14,900 to 17,100 acres (14.8%) for fruits and vegetables.

On the retail side, conventional chains like Safeway, have introduced organic sections. The Packer, a produce industry newspaper reported in its 1998 Fresh Trends that 26% of shoppers purchased organic produce in the previous six months. A 1997 Hartman and New Hope study reports 46% of USA consumers say they are interested in organic products. A 1997 Health Focus Trend survey reported that 23% of shoppers purchase organic products at least twice a week.

Food Service, especially high end restaurants now offer organic food. The National Restaurant Association says 57% of restaurants with per person charges of more than \$25 use organic products. Swiss Air announced in 1998 it would begin serving organic food to passengers.

Organic Farming Tomorrow

There is no doubt the influence of the mid century chemical revolution is waning. Organic acreage is growing while chemically farmed acreage is relatively static. Prices for organics are decreasing as markets become saturated and more competitive. The one sad note is we will lose some of the small organic growers who formed the backbone of the organic movement for the past 20 years.

Tomorrow will continue to change how we farm. There will be increasing numbers of organic products on supermarket shelves. As in other industries, consolidation and change from small producers to large scale growers seems inevitable as organic production and markets mimic their conventional counterpart. The price differential between organic and conventional will continue to decrease with competition and the availability of new tools for organic producers. Production and demand will continue to race forward, each jockeying for the lead.

Some small actions that will facilitate penetration of organic produce are:

- Change regulations that require retailers to segregate organic and conventional products. Segregation limits merchandisers ability to include organic products in attractive displays. It creates problems displaying products at the correct temperatures. (Organic tomatoes should not be in the same rack and temperature as broccoli.)
- Better retail merchandising. Create prominent organic produce displays instead of relegating organics to the last five feet of the cold rack.

As growers/shippers, we are aware of the retailers need to distinguish organic products from conventional. In response, packaging clearly identifies organically grown products and includes scannable bar codes and/or price lookup numbers programmed into the retailer's database.

Organic growers are developing relationships with retailers as we achieve production levels capable of supplying conventional outlets. Simultaneously, conventional growers who are converting all or part of their acreage to organics will build on their existing relationships and distribution channels.

One of the biggest issues for retailers had been getting enough product. That is changing. The challenge today for growers is to match increasing production with demand (not over produce) as well as meet increasing demand with production (not under produce). The market will painfully shake this out.

Organic production of some crops will be limited and costly. Research needs to focus on problems specific to organic farmers. A few examples include:

- Technology to reduce weed suppression costs. Weed control is expensive for organic growers. Some strategies might include smart cultivating equipment and special plant residues that inhibit weed seed germination.
- Soil disease suppression through management of soil micro flora and fauna. Strategies include identifying and introducing effective biological control organisms, encouraging higher populations of existing beneficial organisms, managing micronutrient levels to favor beneficial and/or discourage pest organisms and finding ways to displace pest organisms by occupying the environmental niche the pest requires to survive throughout its life cycle.
- Insect pest suppression through soil fertility management and an understanding of how and what nutrient relationships influence insect pest populations.
- Management strategies for insect pests that hide from predators within the fruit like pepper weevils and fruit flies.

Government can help by:

- Focusing agricultural research funds and resources to problems identified by organic producers. This will help conventional growers move away from environmentally harmful chemical controls.
- Shifting the cost of organic certification from organic producers who have pioneered farming practices that do not contaminate to manufacturers, sellers and end users of agricultural chemicals not approved for organic production.

Organic growers, handlers and retailers currently pay all certification costs by both private certifiers and government agencies.

Organic food is no longer the domain of the corner health food store. A 1995 Food Marketing Institute report stated 42% of mainstream stores carried organic produce. Clearly labeled certified organic tomatoes, lettuce, carrots and bananas can be found in supermarkets throughout the world. The demand for organic food continues to grow. Certified organic acreage continues to increase. Progressive stores continue to attract more customers with eye-catching point of purchase information that identifies and explains organically grown products.

The chemical revolution of the 40s and 50s that promised a pest free farm was a false dream. We have lost 50 years on a strategy that polluted our bodies and planet from pole to pole with man made chemicals (Read Our Stolen Future by Theo Colborn, John Peterson Myers and Dianne Dumanoski). Our growing understanding of ecology broadened our approaches to pest management. Learning to better manage and work with the complex system of organisms that comprise our farm environment will lead to safe, less expensive, and more effective ways to grow our food.

We farmed with chemicals the past fifty years. The previous 9,050 we farmed organically. Today's management practices were developed by observing not poisoning nature. It is time to refocus our resources on improving what today is called ORGANIC FARMING and tomorrow will be FARMING. Conventional farmers will continue to convert acreage to organic to meet the growing demand. The needs of organic growers today will fuel breakthroughs in soil microbiology, entomology and plant physiology providing new tools and cultural practices that will facilitate organic farming tomorrow.

As we began 10,000 years ago observing a few fallen seeds sprouting into our future harvest, we will continue to find ways to increase yields and manage pests. Understanding the web of life instead of exterminating life is the tomorrow of organics as it offers alternatives and replaces the chemical methods of today.

THE ELECTRONIC EXCHANGE: MARKETPLACE OF THE FUTURE

Frank Tomasino
Founder and CEO
Foodtrader.com

(fig.1) Back in 1994, when I began combing the world for research to start Foodtrader.com, I remembered thinking how mindboggling it was that this business of food trade was one of the **only** world businesses that was truly stuck in time. I mean, think about it. People were – and to some extent still are – negotiating prices in the middle of fields to sell their products. It's not unusual in Guatemala, where I come from, or in the rest of Central America for that matter, to see armored trucks come into the fields with wads of cash to pay farmers for products they were promised months earlier. Why the armored cars? Because it's still a cash-based business, and because farmers invariably aren't given the current world market value for their produce...and they know it. But those farmers, and many of you out there today, have been doing business with the same people for years, because frankly, it is downright difficult and extremely time consuming to find new trade partners.

What we're doing with Foodtrader.com is giving that farmer – and millions of buyers and sellers around the world – the opportunity to benefit from a worldwide selection of buyers, sellers, products, shipping methods and resources that you could never find on your own. The site has been called a “virtual farmer's market” for good reason. It is **that**...and so much more. It is the largest and most comprehensive online business-to-business marketplace in the world for the food and agriculture industry.

I started Foodtrader.com in 1997 and envision that soon it will become a one stop shop...the most powerful portal...for the food and agriculture industry. I like to say that it is “evolutionizing” the industry. Because it is much more than a revolution, it is about changing a thousand-year-old industry of food trade and creating new opportunities.

Let me back up and tell you a little about Foodtrader.com and how this concept of an electronic exchange, while still a bit nebulous to many of you out there, is truly the marketplace of the future.

(fig.2) Internet trends are staggering. Online retail sales are expected to nearly quadruple by 2002. A growing share of business-to-business commerce is expected to move to the Internet, and online business to business sales by US companies is expected to grow to \$1.5 trillion by 2004. (fig.3) Taking a closer look at the global food industry, all signs

are pointing to the Internet as being the wave of the future. Just look at this very tell-tale fact from Forrester Research, which estimates that the global food industry is worth an estimated \$2.3 trillion, yet it is fraught with inefficiencies. There are excessive inventories, product mis-pricings, logistical misappropriations and lack of reliable information. Enter the electronic exchange. A new medium that will allow people to have direct access to previously unattainable international markets and drastically reduce their search and logistical costs, regardless of their geographic location or economic status.

Now...how does it work? The process with Foodtrader.com, is straightforward. (fig.4) Registered sellers anonymously post their products and prices online and create a personal profile of themselves and everything they are selling, from the commodity and variety, to the quality, grade and shipping terms. (fig. 5.) Buyers can browse through nearly 40 categories to find the product they need, or (fig. 6) search the system by specific product – as I'm showing here with apples – to find exactly what they are looking for with detailed information about that food item, the variety, origin, grade, price and delivery specifications. Buyers around the world can view and bid on products through a secure channel on the Foodtrader.com Web site. With a few simple mouse clicks, both parties have immediate access to more than 3000 product lots from more than 170 countries around the world. By the way, it is the largest online selection of product lots in the world. Buyers can also enter their specifications about exactly what they want to buy (fig. 7) and we send that out to the world market, beginning with 5,000 registered buyers and sellers and additional databases of 70,000 food industry contacts to try to find the perfect trade match.

In fact, that is an important point to make: This is not just a posting site. We alert buyers and sellers through fax and email to the availability of – and demand for – products in which they have indicated an interest. So, for example, if you are selling whole peeled tomatoes, we will send that information to **everyone** on our system that has indicated an interest in whole peeled tomatoes. Instantly, information about the product you have for sale circles the globe and lands in the laps of prospective buyers. At no cost. As a result, both parties eliminate the time-consuming search for buyer and sellers and instead find trade partners quickly and efficiently.

Once a buyer has bid on a product, a seller has the opportunity to accept it, reject it, or counter bid. Up to that point, all discussions between buyer and seller are anonymous. The reason being that often sellers don't want the competition to see what they are selling and the prices they're offering, and buyers don't want their industry counterparts to do the same. Once a transaction is complete, specialists within our company will assist buyers and sellers with financial transactions, customs clearing, traffic, shipping, inspection and whatever else they need. And we track the products' movement from beginning to end.

(fig 8) In addition, we offer an abundance of tools that buyers and sellers can utilize to conduct business with greater ease and efficiency. Here you see that we offer information about shipping companies around the world, country profiles, customs brokers, embassies

and commodity information. More value-added services, including market information, pricing information, worldwide industry news, and trade financing will be added in the near future.

(fig. 9) You can see how the postings per month on our system have skyrocketed. Just look at the difference between December 1996, when there were about 25 postings a month, and December 1999, when there were about 500 postings a month. The same for searches per month, which were just over 1,000 in October 1998, and were more than 7000 the end of last year...proof that the Internet marketplace is quickly being embraced by the food and agriculture industry.

Those numbers have grown because we have earned the trust and respect of industry leaders by building a completely secure exchange. For three years, we have refined and perfected our system to give buyers and sellers more selection, a broader geographical reach and the best customer service in the industry.

We go to great lengths to qualify and pre-screen our members to ensure the highest quality transactions. Those efforts are very grass-roots, and at the same time, extremely personal, because this is a business that is still based on relationships and trust...even on the Internet. We will travel to more than 40 trade shows around the world this year to meet with food industry buyers and sellers, and develop knowledge of our suppliers and their products. We recently opened offices in Argentina, Chile and Peru, and will soon open offices in England, Brazil and Singapore to have representatives on the ground to assess suppliers through their local networks. When we enter a market, we target leaders in each food and agricultural industry, to ensure that the quality offered is high.

The bottom line is that people who conduct business on our site must qualify to do so, which protects the integrity of the site, and the best interests of both buyers and sellers. Both must supply us with two trade references and bank references, which we verify before members can post products or place bids.

The future of this industry is staggering. By all indications, there will come a time – in the very near future -- when buyers and sellers will trade exclusively online. And when they think of trade, we think they will go directly to Foodtrader.com, the site that was designed as an empowerment tool, to help them quickly...easily... and cost effectively do business around the world.

